



M E M O R A N D U M

Date: June 25, 2015

To: California State Lottery Commission

From: Paula D. LaBrie, Acting Director

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Subject: Item 10(f) – Purchase of Real Property to Replace the East Bay District Office

ISSUE

Should the California State Lottery Commission (Commission) approve the purchase of real property to replace the East Bay District Office (EBDO)?

RECOMMENDATION

California State Lottery (Lottery) staff recommends that the Commission approve the purchase of real property to replace the EBDO, at a cost not to exceed \$8 million.

BACKGROUND

At the November 21, 2013 Commission Meeting, the Commission approved the Facilities Master Plan (FMP) as a guiding strategy for the Lottery's portfolio of facilities. The plan recommends replacing eight leased district offices and the SDC with Lottery-owned facilities. This strategy offers three main benefits:

- Provides long-term cost savings to the Lottery
- Ensures the Lottery's ongoing operational needs are met
- Enhances the stability and flexibility of facilities and their operations

DISCUSSION

In furtherance of the FMP, Lottery staff plans to purchase a property to serve as the replacement location for the currently leased EBDO. Once a suitable property is

acquired, the Lottery would perform improvements to the property to meet operational needs. LPAS, the Lottery's architect, has developed a due diligence and property criteria report that defines the ideal property in terms of location, building size, and characteristics. A new property will need to be sized large enough to support a minimum size facility of 11,000 square feet which is the calculated size to accommodate projected personnel and warehousing growth.

LPAS will assess candidate properties for their ability to meet green building standards set forth by the Governor's Executive Order B-18-12. Colliers International (Colliers), the Lottery's real estate expert, is using criteria set forth in the FMP to identify suitable properties.

Colliers describes the Bay Area real estate market as active and having a limited supply of properties with ideal characteristics. Colliers anticipates a suitable property would cost no more than \$8 million. The initial property search has yielded no ideal properties, however Colliers research of the market suggests approval of a budget to spend up to \$8 million would provide flexibility for the Lottery to purchase a property that will best serve its operational needs. Once the Lottery has procured the property, Lottery staff will proceed with required improvements to meet the Lottery's operational needs.

Commission approval to purchase real property will improve the Lottery's:

- Ability to act quickly on newly advertised properties
- Likelihood of closing the property purchase in a timely manner
- Negotiation strength

All key Lottery Divisions and personnel will participate in the property selection review and approval to ensure agreement on a suitable property that best fits the Lottery's operational needs. The Lottery will perform all due diligence activities as required and appropriate to certify all material facts are understood and to remain confident the property best fits the Lottery's needs. The Lottery's Legal Office has retained outside counsel with real estate expertise to review and guide the real property purchase.

In order to provide a facility that supports the Lottery's current and future operational needs, Lottery staff recommends the Commission approve the purchase of real property to replace the EBDO.